U.S. Department of Transportation

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Financial Management Status Report and 5 Year Plan

Fiscal Years 2001-2006

A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

The Department of Transportation (DOT) is fully targeting its financial resources to implement of the President's Management and Performance Plan. We are using improved technology and E-Government initiatives to improve service to individuals and businesses, to make it easier for States to meet reporting requirements, and to improve the performance and reduce the cost of Federal government. Transportation's new integrated financial management system is the core of our efforts to upgrade and streamline financial management services and improve the quality of data. Currently, seven of our organizations are up and running on the new system, and we expect all agencies to be converted by the end of 2002.

This report illustrates recent accomplishments, the current environment and future plans for Transportation's financial community. Leadership for the community is coordinated through the Department's Chief Financial Officers' Council and the Financial Management Committee. We are focused on upgrading our financial management systems, achieving clean audit opinions on our consolidated financial statement, and exploiting the Internet in support of the Administration's core management agenda. Our current Financial Statement Module transmits FACTS I & II transactions to Treasury and assists in preparing consolidated financial statements. We are automating the production of obligation documents and entering them directly into our financial systems using "imaging" technology; increasing the use of electronic invoices and related documentation; automating receivables starting with bill presentment, ACH and credit card collection, lock box processing and reconciliation.

We are continuing our initiatives to improve our financial management by:

- Promoting the use of electronic business practices. Our "Do-It-Yourself (DIY)," expands the opportunities for citizens to make payments over the Internet with a credit card and electronic checks, and through the use of invoice imaging and workflow to increase the efficiency of payments and improve the quality of financial data.

- Improving our travel process through the use of web-based travel management services, "FedTrip" and "Web T&E," which better serve Federal travelers and reduce travel transaction fees, and eliminate manual data entry of travel data into the accounting system.

- Continuing innovative financing techniques that supplement Federal funds with private and non-Federal public sector investment for transportation infrastructure.

- Increasing the use of the Government Small Purchase Credit Card. This effort saved the Department over $46 million in administrative costs in FY 2001.

Our overall goal is to better support DOT's programs and operations. Achieving this goal requires that the entire DOT team be focused toward improving every aspect of our support and delivery systems. I am committed to fostering an environment of positive change by embracing technology to help us improve our business practices.

Donna McLean
Chief Financial Officer

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Introduction

The DOT Organization

The U.S. Department of Transportation (DOT) is the Federal steward of the Nation's transportation system and speaks for transportation in the Federal government. Transportation, created in 1967, develops policies and programs that contribute to a fast, safe, efficient, and convenient transportation system at the lowest cost—essentials to meet national objectives of economic growth and stability, security of the United States, and the proper use and conservation of resources. Its creation brought under one umbrella a myriad of transportation missions and programs, some of which date back to the 1700s.

DOT employs approximately 100,000 civilian and military people located across the country and the world. It includes the following organizations:

Office of the Secretary (OST)

United States Coast Guard (USCG)

Federal Aviation Administration (FAA)

Federal Highway Administration (FHWA)

Federal Motor Carrier Safety Administration (FMCSA)

Federal Railroad Administration (FRA)

National Highway Traffic Safety Administration (NHTSA)

Federal Transit Administration (FTA)

Saint Lawrence Seaway Development Corporation (SLSDC)

Maritime Administration (MARAD)

Research & Special Programs Administration (RSPA)

Bureau of Transportation Statistics (BTS)

Surface Transportation Board (STB)

Transportation Administrative Service Center (TASC)

These organizations are working together as *One DOT* to create the best transportation system for America, one that is *international in reach, intermodal in form, intelligent in character and inclusive in nature*.

This Report

This Financial Management (FM) Status Report and 5 Year Plan highlights our major FM initiatives, future plans, and recent accomplishments. It shows how we are working to improve and reform FM in support of Government-wide FM goals and related legislation, and DOT's Strategic Plans and FM Visions.

The specific improvements we are implementing and the progress and commitment we have made to meet these goals and make financial management work better in DOT are described in the four sections of this report—***Improving Financial Systems**, **Improving Financial Information, Streamlining and Modernizing Financial Services, and Maximizing Financial Resources.***

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Improving Financial Systems

DOT's progressive evolution of its aging financial system components to modern commercially available components is quickly taking shape. Progress continues on implementing and integrating a new program -"Delphi"--moving DOT away from the Departmental Accounting and Financial Information System (DAFIS) into an advanced financial systems environment. ***Improving Financial Systems*** discusses our systems strategy, the Delphi program, and many other systems improvements.

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Improving Financial Information

DOT recognizes that the reliability of our financial statements must be enhanced and improved. For FY 1999, we obtained an unqualified audit opinion on *all* DOT financial statements, and we are working hard to put in place permanent processes and structures so that it will recur. Our information systems and processes to assemble, array and display financial data and status information to our managers and executives continue to be upgraded and refined for easier and quicker access. We want to be sure we get the right financial information where it needs to be and when it needs to be there for decision making. This year DOT also continues its efforts toward full implementation of the Government Performance and Results Act with preparation of our annual Performance Plan containing performance measures designed to give the public information on the results of our programs.

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Streamline and Modernize Financial Services

To ***Streamline and Modernize Financial Services***, DOT is leveraging technology to achieve the best results and make the most of available resources.

By automating and taking advantage of electronic transmission of data and information for both our internal processes (i.e., employee travel, internet payments, salary payments, procurement), and our external processes (i.e., payments to grantees and vendors, etc.), we are making things easier and quicker for all of our customers *and* cutting administrative costs.

As we move further into web-enabled technology, our improvements should be even more effective.

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Maximizing Financial Resources

This section showcases where DOT's funding comes from and where it goes. Investment in transportation infrastructure -- *a 47 percent increase over the annual average of the previous administration*-- is at a sufficient level to continue narrowing the gap between resource needs and availability. To help fill this gap, DOT continues to take advantage of innovative financing techniques that were authorized by the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) and the recent Transportation Equity Act of the 21st Century (TEA-21). In addition, the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century authorized aviation programs of the FAA and elsewhere in DOT through FY 2003 at record levels for aviation capital and operations funding.

Section 1: Improving Financial Systems

Financial Systems Philosophy and Strategy

DOT has a strategic vision for an integrated financial management systems environment that provides valuable information for its program, budget, procurement, property and financial managers. Our financial managers are providing better and more reliable information, more quickly and with more flexibility.

To achieve this strategic vision, DOT is moving aggressively to evolve its aging financial system components to modern, commercially available financial applications. Commercial-off-the-shelf (COTS) solutions that incorporate best practices in financial management will meet DOT's current and future financial system needs. The remaining legacy financial systems exact a high cost for managing and maintaining "in-house" developed applications, and require a lengthy and cumbersome change management process for meeting user needs.

DOT identified requirements for a COTS to give users a modern, advanced systems environment, reduce the cost of operation, and increase services to financial customers. They include:

- Flexibility/maintainability at the functional user level (not programmers)
- Modular, tight integration of functional components
- Single source data capture
- Electronic routing and approval
- Web-enabled
- Electronic commerce capabilities

DOT financial systems will be comprised of: (1) *corporate components*, such as a general ledger and a financial statement preparation facility; (2) *feeder systems*, such as budget, procurement, travel, grants, payroll, and personnel; and (3) *reporting systems*, using data warehousing technologies. The Department also established three "commandments" to guide implementation of Delphi:

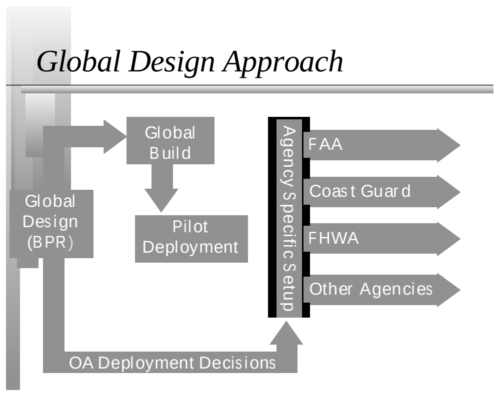
Delphi Commandments

1. Delphi will not replicate DAFIS, which is not SGL compliant.
2. DOT will avoid customizing the Oracle software as much as possible.
3. Since Oracle Federal Financials will represents best practices, it serves as a model for reengin-eering our business processes.

The Department is using a "Global Design" approach for implementing Delphi. DOT has categorized its functional requirements into three categories:

- <u>Universal</u> - requirements that are uniform and integral to all operating components of the Department.
- <u>Standard</u> - requirements shared by two or more operating components of the Department.

♦ Exception - requirements unique to a single operating component of the Department.



The Delphi Global Design includes requirements of all three categories; however the Global Build only includes Universal and Standard requirements. The Global Build serves as the "generic" configuration for DOT's installation of Oracle Federal Financials, and was implemented first as a pilot in the Federal Railroad Administration. During the Global Design and Build activities, the Operating Administrations identify any exception requirements not included in the Global Build; begin making deployment decisions for their organization; and plan for their individual implementations.

The Office of Inspector General (OIG), FRA, RSPA, TASC, FTA, BTS, STB and OST have Delphi and are in production now. The remaining Operating Administrations (OAs) have scheduled implementation during 2002.

The Chief Financial Officer (CFO) Council is continually re-evaluating the visions and strategies of its existing FM Strategic Plan. This action will ensure our FM operations, systems, and policies continue to support DOT's mission, goals, and programs.

To ensure full input, feedback, and communication within DOT for Delphi and related programs, we have established a Delphi Advisory Board, a Delphi Reports User Group, a Delphi Implementation User Group, and a Delphi Production User Group.

Details on Upgrading Major Systems

- **FAA Delphi Implementation**

The FAA formulated a Delphi Integrated Product Team (IPT) for the successful implementation of the Delphi system at the FAA regions, centers, and head-quarters. The team's main focus is to ensure the smooth implementation of Delphi.

The FAA Delphi IPT will focus on the following:

- Assessing whether the overall system adequately addresses unique FAA needs.

- Conducting an extensive user training and acceptance program.

The key goals and objectives for the FAA Delphi team are: (1) meeting the FAA's core business needs, (2) providing effective and efficient solutions to internal and external customers and stakeholders, and (3) ensuring that all of this is done in partnership with affected organizations, users, and their designated representatives.

Target for Completion: CY 2002

- **Cost Accounting System (CAS)**

The Federal Aviation Reauthorization Act of 1996 (P.L. 104-264) directed the FAA to develop a cost accounting system that adequately and accurately reflects investments, operating and overhead costs, revenues, and other financial measurement and reporting aspects of operations. Begun in FY 1997, the system will permit the allocation of costs to users, support the collection of user fees and meet the mandate of legislation. A baseline system was designed to eventually capture cost data for all organizations in FAA. In addition, the Associate Administrator developed a prototype labor distribution system for use for Research and Acquisition.

During FY 1998 and FY 1999, detailed CAS requirements were developed and implemented for the Air Traffic Services (ATS) line of business to assign and/or allocate the full cost of providing en route and oceanic services. These requirements were incorporated into the system design in June 1999. For the first time, the FAA was able to determine the actual cost of providing these essential services. The FY 1999 information was also used as a basis for the calculation of overflight user fees.

At the beginning of FY 2000, CAS was implemented for Flight Services, and enhancements to the capabilities provided for En Route and Oceanic Services were implemented. In April 2001, they enhanced the system to provide for costing of Terminal Services, thus completing the implementation of all four Air Traffic Services. Production of reports has progressed from producing annual reports in FY 1998 and 1999 to quarterly production of reports in FY 2000 and to monthly reports beginning with FY 2001. The CAS has also been used to produce the agency's Statement of Net Cost since FY 1998.

A phased approach is being used to implement the remaining lines of business during the FY 2001 and FY 2002 time frame. By the end of FY 2002, the system will support project cost accounting and provide full cost information for all lines of business.

Target for Completion: FY 2002

♦ Property and Procurement

USCG's Large Unit Financial System (LUFS-NT)

The Large Unit Financial System (LUFS) is the Coast Guard's unit level procurement and funds management software and is a DOT feeder system. LUFS provides electronic source data entry and is used for the transmission of financial and procurement data to the Coast Guard Finance Center for update to the DAFIS and automates reconciliation of DAFIS balances with local ledger accounts maintained in LUFS.

A new version of LUFS, LUFS-NT, is now in production. Enhancements include: the ability to generate travel orders, workflow processing of documents using Exchange Mail, and the ability to support digital signatures and electronic commerce. LUFS-NT now has automated interfaces to other Coast Guard Applications including the Fleet Logistic System. Interfaces have also been added to several commercial applications including PRISM from Compusearch and Oracle's Projects and Fixed Assets. The migration of units to LUFS-NT included migration of the unit's data from the legacy application. LUFS-NT has a centralized database architecture to minimize database administration costs and improve data integrity.

Target for Completion: Completed.

Assets Accounting and Property Management System

During FY 1999, the Coast Guard successfully completed implementation of a COTS asset accounting and property management system, Oracle Financials – Fixed Assets Module. In addition to meeting the needs of financial managers, this highly collaborative cross-programmatic effort improved information available to property managers and to program managers. Property custodians now have more detailed information available on the location, value, status, and condition of the property under their control. Procedures have been established for performing ongoing physical inventories of capital assets for validation with system records. By closely working with program managers and utilizing application extensions, the Coast Guard was able to implement Oracle Fixed Assets Module in less than one year and replace several non-integrated asset systems with it. Any future implementation throughtout DOT would be as a part of overall Delphi implementation.

In addition, the Coast Guard implemented the Oracle Financials Project Accounting Module for tracking and controlling funds expended within their Acquisition, Construction and Improvement (AC&I) appropriation, which totals over $500 million annually. The system works in conjunction with the Fixed Asset Module to give financial and program managers the enhanced ability to identify total project cost, construction in process balances, and assets procured. The system is also used for managing and billing project costs in our accounts receivable and industrial accounting programs.

In concert with these system implementations, the Coast Guard completed data clean up of Property and Construction In Process records to ensure that the data in these new systems is accurate for the transition to Delphi. The systems implementation and data clean up facilitated the Coast Guard's ability to meet CFO Act audit requirements for FY 2000 and have improved focus on assets and accountability.

PRISM – Contract Management

FAA originally planned to integrate their Oracle ACQUIRE with Delphi during FY 2002. However, FAA decided to replace ACQUIRE with a procurement system called "PRISM." PRISM is a Commercial-Off-The-Shelf (COTS) system developed by Compusearch Corporation. It is currently being used by several of the Department's Operating Administrations (FRA, RSPA, FTA, FHWA, and OST). Beginning in FY 2002, FAA will establish a pilot implementation of the PRISM product to review business requirements that would require changes. PRISM will be implemented for the FAA when Delphi becomes operational for the agency later in FY 2002.

PRISM will become a component of the integrated DOT administrative system suite that addresses corporate functions for financial and asset management. In the future, Delphi will provide a web-based capability for purchasing to which PRISM can be integrated. We estimate that it could support a minimum of 5,000 users with on-line access privileges to generate over 300,000 procurement transactions annually for various programs within the FAA.

Target for Completion: CY 2002

Project Tracking

FHWA is streamlining and upgrading its Fiscal Management Information System (FMIS) with a new web-enabled system that is being implemented by October 1, 2001. FMIS is used by FHWA and the State DOTs to obligate and track projects comprising the $26 billion per year Federal-aid Highway Program. The new system will redefine the data elements resulting in fewer categories and improved quality of data. It also has improved user-friendly technology. Since the new FMIS is web-enabled, it allows access with a standard Web browser, thus eliminating the need for client software installation and maintenance.

Target for Completion: FY 2002

Delphi Imaging Program

As a part of implementing the Delphi system, DOT is adopting a document imaging system that integrates scanned images of financial documents with financial records in Delphi and makes the document images easily and quickly accessible over the Web. Under Delphi's imaging program, financial documents are scanned and stored in electronic files that are fully integrated with the Delphi accounting system and payment process. This integration will significantly accelerate Delphi's transaction processing and enable the Department to

maintain records on contracts, payments and vendors more efficiently.
The Coast Guard Finance Center in Chesapeake, Virginia, operates Delphi's imaging project. The system features high-speed document scanning and capture, high volume storage management, annotation and interaction capability, fax support, workflow, and security safeguards. All contract and payment documents will be received electronically or added as images into the database.

Document imaging provides many advantages: Critical documents will become much more accessible to DOT staff. With documents available quickly and easily on-line, extensive paper files and file cabinets will no longer be needed, extra information copies will not have to be faxed; and vendors will not have to be called to request information that DOT already has collected. Delphi payment offices will no longer have to handle, batch control, and store large quantities of paper files. The cost of handling and filing paper documents will decrease significantly.

Dealing with "virtual documents" will especially increase the productivity of accounting and audit activities. Accountants and program officials will be able to retrieve documents quickly and in a format that can be easily used as needed. Auditors will be provided read-only access to payment documents and other supporting documentation. This means that the Inspector General staff will not need to go to the payment site or document storage center to retrieve contracts and other obligation documents. Auditors will increase their productivity, reduce travel costs, and eliminate copying and archiving costs.

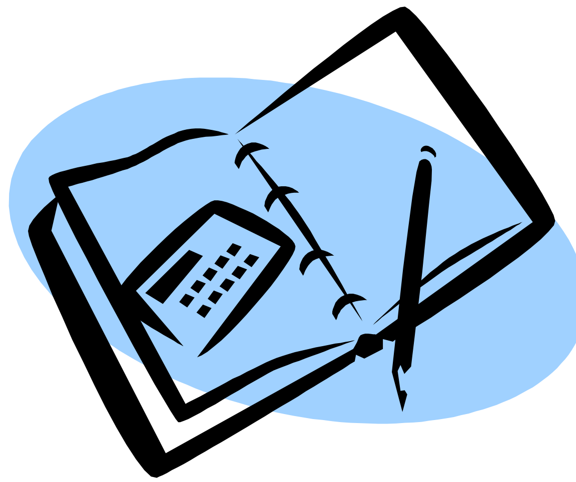
Document management will no longer take the time of fund administrators, payment staff, contracting officers, grants administrators and others. Instead, they will be able to focus their time on program analysis and management. Private sector experience shows that immediate electronic access to documents greatly improves payment productivity, reduces storage costs, and reduces reproduction and transmission costs.

The FRA successfully implemented a document imaging integrated with the Delphi accounting system in FY 2001. DOT will realize additional benefits as other DOT Operating Administrations implement Delphi and the integrated imaging system that goes with it.
Target for Completion: FY 2002

DAFIS Financial Statements Module – FSM 2001

DOT developed a DAFIS Financial Statements Module, which automates the preparation of an Adjusted Trial Balance Report with an accompanying Audit Transaction Report. The Module provides an efficient means of preparing financial statements to ensure the accuracy and integrity of data.
Presently, the Department is developing within DAFIS FS Module the capability of generating the FACTS II Account Groupings Worksheets that are required for the CFO verification of summarized FACTS data. This data is used as input to the Government-wide Financial Statements.

The Module currently consolidates data from both DAFIS and Delphi, and prepares the Consolidated Financial Statements during the transition to Delphi. The DAFIS FS Module will provide the OAs and the Department with an automated system, which produces efficient and accurate data that will greatly increase the capability of meeting the Government's financial reporting requirements. The system will decrease the time required to produce the statements, which will allow more time for review and audit by the OAs and the OIG. When all OAs are on Delphi, this Module will no longer be needed.



Managing for Results -- The Government Performance and Results Act (GPRA)

Strategic Planning

FY 2001 was an important year in DOT's continuing transition to managing for results. The Government Performance and Results Act (GPRA) of 1993, required agencies to create plans that identify their mission and strategic goals, set annual performance goals that are related to strategic goals, describe how goals will be achieved and the resources needed, and identify measures that will be used to gauge progress towards achieving goals. This year, DOT completed its third Performance Plan and the Department delivered its second Performance Report for FY 2000, as required by law.

DOT's second GPRA Strategic Plan 2000-2005 was delivered to Congress in September, as required by law. A critical foundation piece for performance-based budgeting and management, the DOT Strategic Plan focuses resource allocation on five Department-wide strategic goals and one organizational goal, each with measurable objectives (see chart opposite).

The strategic plan also includes the goal of advancing the Department's ability to manage for results and innovation -- organizational excellence. Our organizational excellence goal builds on the ONE DOT management strategy we advanced in our 1997-2002 Strategic Plan. We developed three organizational outcomes we want to achieve in the next five years: improved customer satisfaction; improved employee satisfaction and effectiveness; and improved organizational performance and productivity. The completed plan reflects a cohesive, cross-modal vision for *what* the Department aims to accomplish (strategic goals) as well as *how* the Department aims to conduct its business (organizational excellence). This plan aligns the efforts of the Operating Administrations (OAs) and Departmental offices, and supports sound budgeting and financial management by integrating policy development and resource planning across modes well ahead of the budget process. The DOT 2000-2005 Strategic Plan was the culmination of over two years of work within DOT to re-tool management thinking and processes around the strategic outcomes.

DOT Strategic Goals

Safety *– Promote the public health and safety by working toward the elimination of transportation-related deaths and injuries.*

Mobility *– Shape an accessible, affordable, reliable transportation system for all people, goods and regions.*

Economic Growth *– Support a transportation system that sustains America's economic growth.*

Human and Natural Environment *– Protect and enhance communities and the natural environment affected by transportation.*

National Security *– Ensure the security of the transportation system for the movement of people and goods, and support the National Security Strategy.*

Performance Planning and Management

On April 9, 2001, DOT delivered a combined FY 2000 Performance Report/ FY 2002 Performance Plan to the

President, OMB and Congress. In order to more clearly explain both our goals and results to the Administration, Congress, and the Public, we again combined our report on 2000 results with our plan for 2002 performance. Managing and achieving good results is enhanced by a clear understanding of historical trends and recent results and using this understanding to devise effective strategies and resource allocations. That is what our combined Performance Report and Performance Plan does.

DOT has measured and assessed performance in various programs for some time. Our Performance Reports provide public accounting of performance against the goals in Annual DOT Performance Plans. We are proud of our results in FY 2000-- we met or saw good trends in 71 percent of our goals. The FY 2002 DOT Performance Plan more comprehensively links program activities and budget resources found in each OA's budget to the Department's strategic goals. Most critically, the FY 2002 Performance Plan contains performance measures that we will use to assess progress in achieving long-range strategic goals. The plan organizes the presentation of these annual performance goals into five sections by strategic goal area. Within these five strategic goal areas, budget program activities are grouped together according to the annual performance goals they support. In this manner a clear line can be drawn from the mission to the strategic goal, and finally to the performance goals, strategies, and requested resources.

The relationship between the performance plan's structure and the DOT budget is worth further discussion, since it gives insight into managing for results and financial accountability. The DOT Performance Plan is generally stated by major outcomes. The account and activity structure in the DOT budget varies by OA and type of budget account. In general, OA appropriation accounts group similar activities or funding mechanisms, and are not organized necessarily by outcome sought. Some appropriation accounts contribute to several different strategic outcomes, and in some cases, multiple accounts contribute to only one outcome, overall fatality reduction being the most salient example of this latter category. DOT's Performance Plan traces each appropriation account's program and financing structure to its strategic performance area, and in that fashion, each major program activity is traceable to a performance outcome in the plan.

Where DOT has been challenged is in accounting for both the primary and secondary impacts of budget activities. Program activities typically influence more than one outcome area, and therefore often they are associated with multiple performance goals. For example, building a new highway may affect travel time, congestion costs, emissions and land use, safety, and even national security. At the same time, achieving these outcomes typically requires efforts across multiple program activities. For this reason, there will never be a clean, one-to-one relationship between funding and out-comes. The aggregated approach in the DOT Performance Plan reflects a reasonable compromise between completeness and clarity in this respect. It associates program activities and obligations with the primary purpose of the program, notes other programs which also contribute significantly to the same goals, and does not double-count resources.

DOT will continue to reexamine, and where possible, refine this approach for managing its resources and organizational performance. We also plan a closer link between performance accounting and cost accounting, as we refine our processes. DOT is committed to more refined "managerial "cost accounting, and sees this as integral to improving the efficiency with which the Department manages for results. To this end, DOT is investing in improved financial systems, based on state of the art data systems, that will provide the flexibility to better associate dollars with activities, outputs, outcomes, and performance goals.

Compliance with the Federal Financial Management Improvement Act

For FY 2000, DOT was not in conformance with the Federal Financial Management Improvement Act of 1996 (FFMIA) due to the Consolidated Financial Report audit findings relating to Property Accounting in the FAA, DAFIS not complying with the U.S. Government standard general ledger, DAFIS's inability to provide the necessary data from the Core System to prepare the DOT Consolidated Financial Statements, and the lack of a fully implemented managerial cost accounting system.

Full compliance with FFMIA hinges on the successful implementation of Delphi throughout the Department. As part of central processing, DAFIS/Delphi revised and updated the Financial Statements Module to electronically process information into the Standard General Ledger and automate the preparation of the Adjusted Trial Balance for each Operating Administration within DOT. The module also contains a detailed audit trail so that all adjustments can be easily identified and audited.

Establishing FAA's property system took longer than planned and, in the process of implementing it, errors were generated that required correction and validation.

In addition, the FAA is continuing its implementation of a broad ranging cost accounting system, and is developing an Interim Fixed Asset System (IFAS) which will receive data electronically from various property systems further tightening the integration of DOT's financial systems. IFAS will compute the depreciation for FAA's owned assets that meet the Department's capitalization criteria. Finally, as the elements of the Department continue to migrate to Delphi, they will have enhanced cost accounting capabilities based on the best practices of the private sector. Although programs within the Department that operate in a business type environment now use cost accounting processes, all Delphi users will have the software infrastructure necessary to fulfill this objective.

Our remediation plan under FFMIA is summarized within Appendices A and B, which outline the resources, remedies, and milestones for full implementation of Delphi, and thereby achieving substantial compliance with the provisions of the FFMIA.

Results of FY 2000 Audited Financial Statements

Underlying the financial statements of FY 2000 is substantial long-term improvement in the tools and processes for conducting financial management in Transportation. For FY 2002, we believe that these new instruments will prove reliable, prompt and audit friendly.

The Highway Trust Fund, having received an unqualified opinion for FY 1999 as a result of cooperation with the General Accounting Office for 3 years, has again received an unqualified opinion this year.

In the course of implementing long-term improvements, the Federal Aviation Administration (FAA) moved to a new commercial off-the-shelf based property system. This system, with its added land and detailed property data, has great promise to reduce the maintenance burden, display greater precision, and improve the accuracy of the FAA's records. It will link into Transportation's JFMIP-approved core financial system, which will automatically generate financial statements shortly after the end of the fiscal year. Establishing FAA's property system took more than planned and in the process of implementing required correction and validation of errors. Recently, FAA brought in experts to evaluate the system and lay out a plan for the long-term maintenance and quality control of the new property system.

Continuing Efforts

Requirements continue to evolve as to the appropriate treatment in the financial statements for various accounting events. We plan to continue making improvements in standardizing accounting procedures as the central agencies provide additional

Although, transition to the new FAA property system brought about a qualified opinion, we have taken a large step toward transitioning to a flexible business-oriented financial system that will lead to worthwhile financial management improvements in the FAA. To improve the quality and timeliness of DOT's financial statement preparation by improving understanding and familiarity with the latest financial statement formats, agency financial management employees are strongly encouraged to take advantage of the variety of training opportunities available in this regard.

We are also working to streamline the preparation of the statements and compliance with current external financial management requirements by continuing to develop the DAFIS Financial Statements Module – FSM 2001. Complete resolution of some of the problems with the financial statement formats will be resolved by the full implementation of Delphi.

FINANCIAL STATEMENT PROGRESS

	FY 94	FY 95	FY 96[2]	FY 97	FY 98	FY99	FY 00
Financial Statements							
Prepared	9	8[1]	4	4	4	4	4
Audited	9	8	4	4	4	4	4
Results of Audits							
Opinions: Unqualified	2	4	2	1	2[3]	4	2
Qualified	2	3	--	1	--	--	2
Disclaimed	5	1	2	2	2	--	--

[1] Only eight FY 1995 statements were prepared and audited because, in FY 1994, Washington Metropolitan Area Transit Authority refinanced its debt eliminating any federal liability and reporting responsibility.

[2] Coverage of DOT accounts changed from FY 1995 to FY 1996 with the Government Management Reform Act requirement that financial statements, beginning with FY 1996, be prepared and audited for all DOT activities instead of limiting coverage to trust, revolving, and commercial funds. Except for three stand-alone statements, the FY 1996 consolidated financial statement replaced most individual statements reducing the number of statements from eight to four.

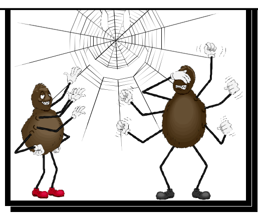
[3] The Highway Trust Fund received an unqualified opinion on three of five principal financial statements. The remaining two new statements received a disclaimer.

Making Financial Information More Useful

DAFIS Management Information Reporting (MIR)

The DAFIS MIR Data Warehouse continues to be the main source of *day-to-day* financial management information those OAs still on DAFIS. A warehouse of financial data from 1995 to the present, the MIR database is updated daily through an overnight process which provides the user with virtually the most current and accurate data for input into commercially available desktop management tools such as spreadsheets and graphic packages.

http://ostpxweb.dot.gov/budget



Click Here for Financial Information

FY 2001 brought the introduction of 'DOTnet'—the intranet of the DOT (http://dotnet.dot.gov). The CFO's 'Financial Management Community' has been established within DOTnet to facilitate FM communication within DOT and to be a one-stop source of financial management news and information. This interactive community approach allows for DOT employees to become members of groups that cover such topics as Delphi, Financial Statements, Do-It-Yourself, Invoice Imaging & Workflow, Central Contractor Registration, Financial Systems Inventory, Travel and more. DOTnet provides the setting for members of these groups to access information, post documents, add to bulletin boards, chat, manage and view calendars, access and view links, and especially, to be active members of their intranet community.

With the introduction of DOTnet to facilitate internal communication, the former CFO Web site is being refocused to serve external customers primarily by providing quick access to budget information.

The CFO Web Page also has hyperlinks to many valuable external financial resources such as OMB, Treasury, GSA, and other central agency policy directives and requirements, status of legislative actions, and several other government financial reference sources and organizational activities. Visit us at

http://ostpxweb.dot.gov/budget.

Effective Tools for Cash and Debt Management

Electronic Funds Transfer

The Debt Collection Improvement Act of 1996 (DCIA 96) requires electronic funds transfer of all new payments after July 25, 1996 and *all* payments after January 1, 1999. In the Federal Government Direct Deposit/EFT program for employee payments, for example, DOT's participation rate was 98 percent at September 30, 2000. Efforts continue to move vendor and miscellaneous payments to EFT. Since September 1999, DOT payment information has been captured at the time of contract award or purchase order including vendors' taxpayer identification number (see Central Contractor Registration below). All contracts contain a condition that payments be made electronically. Currently, Treasury includes EFT information inserts with all vendor checks generated by FAA and USCG.

Target for Completion: Completed

Payment Performance Highlights

EFT:	FY 2000 # of Transactions	FY 2000 % of Total	FY 1999 # of Transactions	FY 1999 % of Total
- Salaries	2,456,070	98.0	2,528,000	98.4
- USCG Ret. Pay	403,856	99.8	393,000	97.9
Active Pay	918,316	100	N/A	N/A

Managing Debt

The Debt Collection Improvement Act of 1996 also provides for referral of debts over 180 days delinquent to Treasury for offset or collection (cross-servicing). DOT continues to work with Treasury on debts appropriate for cross-servicing. Meanwhile, DOT is improving its collection of outstanding debts so that we collect debts sooner, and reviewing debts to ensure we are carrying only viable debts on our books.

Debt Management Performance Highlights
($ in millions)

	FY 2000	FY 1999
Direct Loans and Non-Credit Receivables	$1,232	$1,130
Collection of Receivables	296	182
Delinquent Debt	242	151
Write Offs	16	67
Referred to Treasury	1.1	1.1

Government-wide Small Purchase Credit Card Program

DOT continues to achieve substantial dollar savings and other benefits by using the Government-wide Small Purchase Credit Card Program (IMPAC card) as a cost effective and efficient means of acquiring products and services, as compared to processing paper based purchase orders. Use of the card, mostly for purchases under $2,500, has helped DOT to save significant amounts in administrative processing costs for small purchases. In FY 2000, DOT saved more than $46.2 million over the use of paper-based purchase orders at a savings of nearly $57 per transaction. For added administrative efficiencies, USCG is cross-servicing payment processing for FTA, FHWA, FRA, MARAD, OST, BTS, TASC, STB, and the Volpe Center. In addition, FAA cross-services for OIG, NHTSA, and RSPA.

In FY 1999, DOT transitioned to a new small purchase card contractor, Bank of America. Value added features available for potential use include stored value cards, debit card services, ATM, Inter/Intragovernmental purchases, hybrid card, photo ID on cards, and net billing.

Electronic Commerce

DOT has made significant strides in the area of electronic commerce as shown in the following initiatives.

Do It Yourself (DIY) Internet Payment

http://diy.dot.gov

Harnessing the opportunities provided by the Internet, DOT is integrating the use of Internet applications into financial management business practices. The first of these options involves offering DOT customers the capability to pay for registration, filings, and debts over the Internet with a credit card. DOT collects fees for professional certificates, licenses, penalties, fines, and training courses. Since many of the payments received by DOT involve dollar amounts from $10 to $20,000, these payments are in the range most appropriate for credit card use. By using the Internet for credit card payments, DOT customers gain 24-hour access to DOT and may pay at their convenience. From the DOT perspective, the vulnerabilities associated with paper checks and forms disappear: checks will not be lost; multiple data re-entry can be avoided; DOT data entry errors are eliminated; and forms no longer are misplaced or separated from checks.

In FY 1999, the initial payment site went on-line. The DIY site currently offers customers more than 30 payment services, including certificate registration, insurance, fines/penalties, and various other services FAA, USCG, RSPA, MARAD, FRA, FMCSA and NHTSA. To date, DIY has processed over 26,000 transactions and collected nearly $9 million. We continue to expand DIY to all DOT payment areas.

Target for Completion: CY 2001

Central Contractor Registration

In May 2000, DOT signed an agreement to partner with the Department of Defense, Joint Electronic Commerce Program Office (JECPO) to use the Central Contractor Registration (CCR) system. When vendors update their electronic funds transfer (EFT) and other information on-line in the CCR, they avoid having to notify each agency they do business with of their changes. Over 166,000 contractors are currently registered in the CCR, which uses the Dunn and Bradstreet Numbering System (DUNS) numbers as a unique, verified vendor number.

Transportation finance offices are using CCR information to update vendor information in our old (DAFIS) and new (Delphi) financial systems. As an interim solution, the FTA developed a series of CCR Change Reports that provide a daily list of all CCR vendor updates for each OA's vendors; the OAs use these CCR Change Reports to review vendor changes and update their T-16 vendor file in DAFIS or their Supplier Table in Delphi. For the long-term, the Coast Guard is developing an interface that will automatically enter the CCR updates into Delphi.

Using the CCR streamlines DOT's vendor information update process and decreases the amount of reporting required of vendors. When the automatic interface is implemented, it will further decrease the data entry required by DOT's procurement and finance staff. DOT's current use of the CCR meets in advance the OMB mandate for all government agencies to use the CCR by FY 2003 as part of the President's Management Plan and E-Gov initiatives.

Payment History Inquiry

The Coast Guard Finance Center has just deployed two Internet web-based queries that will provide Travel Claim Payment Status and Payment History information. This information, previously available only to internal customers on the Intranet, is now accessible to all customers from the Finance Center Internet site.

Internal customers, including Coast Guard members and Auxiliarists, may check their Travel Claim Payment Status directly from the Internet website regardless of their location. Commercial vendors may now use this as a new avenue to obtain the status of their Invoice Payments. In addition to the current 1-800 Automated Voice Response system and the web-based Payment Inquiry form that is sent via email to Customer Service, vendors may now query our payment database directly.

Purchase Card Finance and Procurement Streamlining Initiative

The Coast Guard, working through its Finance Center, began this year to make payments under blanket purchase agreements (BPAs) using the Purchase Card and/or Convenience Checks. This is a significant streamlining initiative because it:

- Eliminates the need for the FINCEN to reconcile invoices/payments to specific BPAs.
- Encourages the use of the Purchase Card and Convenience Check for payment.

  Eliminates the need to establish BPAs on a yearly basis, reducing the workload involved with annual renewal.

♦ <u>Electronic Grants</u>

Grant Management Policy

DOT has formalized grants management policy, which provides guidance to grant program officials on implementing the various OMB grants management circulars and DOT-issued common rules for grants. Program-specific regulations, guidance, and award conditions make reference to the various Departmental grant-related rules. Most grant programs require the standard OMB grant application and reporting form, or have requirements that are substantially reduced from the standards.

The Department continues to play major role in the development of Governmentwide standards and requirements. Departmental staff was instrumental in establishing the Interagency Electronic Grants Committee (IAEGC), leading the Governmentwide Grants Network, and providing key leadership positions in the Federal Grants Streamlining Program that implements Public Law 106-107, the Federal Financial Assistance Management Improvement Act of 1999.

The Department was a major participant in the development of grant financial system standards by the JPMIP; and in expanding the university research grant data standards effort to including state and local requirements. Through the Department's participation in the IAEGC, we were also responsible for proposing the expansion of FedBizOpps to include grant requirements. The expansion of the FedBizOpps is now in process and is part of the Federal Commons initiative.

The five largest grant programs in DOT are:

CFDA 20.106 Airport Improvement Program

CFDA 20.205 Highway Planning and Construction

CFDA 20.500 Federal Transit Capital Investment Grants

CFDA 20.507 Federal Transit Formula Grants

CFDA 20.600 State and Community Highway Safety

For these programs, grantees use standard project agreements, submit project information using a standard electronic database system, and submit standard electronic requests for payment. Program and grantee staffs receive periodic training in the use of project data and payment systems.

Audit Quality

The Director of Grants Management is currently chairing the CFO Council's Audit Oversight Work Group. This group is working to ensure that audits of Federal grantees provide the assurance need to manage Federal grant programs. The group is reviewing current Governmentwide practices for monitoring audit quality, updating Federal compliance requirements for single audits, suggesting improvements to the Federal Audit Clearinghouse, providing plain language guidance on Federal audit requirements, and developing a plan to ensure required audits are obtained.

The DOT OIG aggressively seeks to continually improve the quality of audits of grants subject to OMB Circular A-133 requirements. The OIG has taken actions to improve quality of audits by providing technical assistance to Independent Public Accountants (IPA) who perform audits of grants.

The OIG also provides training to auditors performing quality control reviews so that they are more knowledgeable of IPA requirements. Additionally, OIG personnel provide assistance to program management in follow-up resolution of audit issues assuring the Department of

Transportation realizes the benefits of the A-133 audits.

The OIG plan for selecting grantees for quality control reviews assures each grantee for which the Department of Transportation has audit cognizance will receive at least one quality control review within a 5-year period. Other grantees selected for review were determined based on both risk and the dollar value of Transportation expenditures and major program dollars.

The results of OIG efforts, assigned resources, and plans for future quality control reviews (QCR) are listed below:

	Number of QCRs	Acceptable	Technically Deficient	Substandard	FTEs
FY 2000					
Lead	21	21	0	0	
Supporting Agency	2	2	0	0	1.6
FY 2001 (to date *)					
Lead	25	12	2	0	
Supporting Agency	1	1	0	0	1.8
FY 2002					
Planned	20	-	-	-	1.5
FY 2003					
Planned	20	-	-	-	1.5

* As of July 31, 2001, 15 of the scheduled 26 reviews have been completed. The remaining quality control reviews are scheduled for completion by September 30, 2001.

Electronic Signature Billing

FHWA's Electronic Signature (ElSig) billing process for grant payments permits States to bill FHWA in a truly paperless environment. It facilitates same day payment enabling FHWA and the States to minimize the potential for interest payments under the Cash Management Improvement Act. ElSig is a significant improvement to FHWA's Current Billing System (used to reimburse the 50 State DOT's, plus DC and Puerto Rico, approximately $20 billion each year).

Like FMIS, FHWA's Current Billing System is also being replaced with a new Web-enabled system. An earlier revision implemented automatic edits of the amounts being billed for each project against the available project agreement.

Electronic Grant Making/Management

The FTA implemented the Transportation Electronic Award and Management (TEAM) System in November 1998. FY 1999 was the transitional year for FTA's grant recipients, and in FY 2000 FTA processed all awards for financial assistance electronically.

The TEAM system maintains external interfaces with the Agency's financial and oversight systems. The system manages the historical data warehouse for financial and oversight information for over 60,000 grant applications. FTA developed a number of web based data retrieval programs that provide exported file to other FTA subsystems to improve the consistency of the grant delivery process and project oversight.

During FY 2000, the FTA provided over 100 training sessions to maintain the quality and integrity of the information contain in the TEAM data warehouse. FY 2001 was devoted to rolling out a new web-enabled version of the TEAM system. In addition, FTA targeted errors for data cleanup in the historical records, conducted program delivery, error prevention, and web reporting training. FTA concentrated on increased reporting features for information that comes from other FTA sources through the TEAM interfaces (i.e. Civil Rights, Financial Activity, Program Delivery, etc.).

Target for Completion: Completed

NHTSA Grant Tracking System (GTS)

The GTS is a database developed to assist the States in managing Federal grants. GTS is designed to automate the financial process, produce the required Federal financial documents at the program area level, and electronically transmit this information to the various States and U.S. Government central agencies, e.g., OMB and Treasury.

There are five major types of transactions in the GTS automated system. Each type is dependent upon the other in terms of order of completion, validity and accuracy. They are:

(1) The Highway Safety Plan – establishes each program project, task, estimated state match, current year funds, carry forward funds, and benefit amount to local subdivision within the State Highway Safety Office.

(2) Obligation Limitation – amount of Federal funds available for expenditure for NHTSA and FHWA 402, 153 Penalty Transfer, Incentive 408, 410, and 153 funds.

(3) Obligation Cost Summary – produces the documents that obligate funds for the Federal computerized accounting system (DAFIS).

(4) Advance of Funds—allows the user to request funds electronically and prior to submission of a voucher. Advance Reduction – transactions result from a state issuing a check to NHTSA for (a) reducing an outstanding advance balance of (b) paying NHTSA an amount owed resulting from an audit finding.

(5) Voucher – allow the users to process vouchers.

GTS has been installed in each State. The States submit their info to the FAA office in Atlanta. The FAA Atlanta office is the central office for reception of GTS data, and they manually input data from GTS into DAFIS.

GTS will be housed at NHTSA HQ in FY 2002 on a server and made available to State users and regions through the Internet

Consolidated Planning Grants

FTA and FHWA have implemented a Consolidated Planning Grant (CPG) initiative which combines planning funds from both agencies into a single consolidated grant. In FY 1997, FTA and FHWA began offering States the option of participating in a pilot of the program for FTA's Metropolitan and Statewide programs and FHWA's Metropolitan Planning and State Planning and Research programs. Currently eleven States are participating in the program.

For the first three full fiscal years, FY 1997, FY 1998, FY 1999 and FY 2000, total CPG obligations were $12.418

million, $12.833 million, $16.684 million, and $53.535 million respectively. Totals for FY 2001 through July are $24.086 million.

For the first two years, CPG obligations accounted for approximately 25% of all obligations for formula planning programs. In FY 1999, FTA obligations under CPG grew to more than 31% of all FTA formula planning program obligations. States have a single point of contact with FTA/FHWA for planning activities and programs. FY 2001 was devoted to help promote and streamline the CPG process.

Target for Completion: Completed

Web-Based Travel Services

- **Self-Booking**

FedTrip is a web-based travel reservation application that enables Federal travelers to make air, hotel and rental car reservations easily and efficiently. Its user-friendly interface, low-fare search capability, ability to adapt to changes in corporate travel policies, and round-the-clock availability provide significant cost savings through automation of the reservation process.

Quick and easy to use, FedTrip requires only a personal computer, a common Web browser and Internet access, thus allowing the traveler 24/7/365 access to the system from home, office, hotel room or anywhere in the world as long as they have access to the Internet.

FedTrip is currently being implemented throughout the DOT, both at the headquarters-level and in regional/state offices/centers of FHWA and FAA. In addition to DOT, FedTrip has become a government-wide system with applications and interest from the U.S. Postal Service; National Science Foundation; General Services Administration; Housing and Urban Development; U.S. Department of Agriculture; Internal Revenue Service; U.S. Navy; Environmental Protection Agency; Department of Veterans' Affairs; U.S. Department of Education; and General Accounting Office, to name a few. As usage and implementation of FedTrip increases, the Federal government will incur significant cost savings.

- **Travel & Expense Service**

Web-based, paperless travel authorization and vouchering is here at last. Soon DOT travelers will access a web-based Travel Expense Service (TEServ) that revolutionizes DOT travel processing. The Department has contracted with PriceWaterhouseCoopers and Gelco Information Network for a web-based Service that processes travel authorizations and vouchers (including electronic approvals), reimburses travelers, and produces management information. This paperless Service features optional value-added electronic receipts management (imaging) and voucher examination.

Anyone with a browser can access the system 24 hours a day, 7 days a week. The system will interface with FedTrip, DAFIS, and Delphi . It is currently being implemented throughout the Department beginning with FAA, the Volpe Center, and MARAD.

Using TEServ, DOT travelers can expect fast, convenient, and accurate processing of their travel claims. They will have the latest per diem rates and other information at their fingertips, allowing them to complete a travel claim in a fraction of the time it once took. Reimbursement will be received in travelers' bank accounts in 2 or 3 business days

Fully "Federalized," TEServ complies with the Federal Travel Regulation, Joint Financial Management Improvement Program mandatory requirements, and other Federal rules and regulations, including Department of State and Department of Defense (DoD) travel regulations. Transaction fees charged to the traveler will cover the cost of the Service.
Benefits include:

- Reduced travel processing costs – Travelers, approvers, accounting staff and others will no longer spend endless frustrating (and expensive) hours preparing and processing travel authorizations and vouchers.

- Convenience and efficiency – The service will be available 24 hours a day, 7 days a week, 365 days a year. Travelers can spend more time on their mission and less time on travel processing.

- Quick reimbursement – Travelers will be paid within 24-48 hours, long before their credit card bills come due. TEServ adheres to public law mandating traveler reimbursement in 30 days.

- IT savings – The service, including all software and hardware, will be hosted by an Applications Service Provider (ASP) on the provider's site, rather than the user's site. There will be no in-house expenses such as LANs, WANS, Servers, and other technical support.

- Paperless – Receipts can be imaged and stored electronically along with authorizations and vouchers. Approvals will also be completed electronically.

- No development, capital, or implementation costs – By using a COTS package, DOT will incur no development or capital costs to obtain the service. Travelers will pay for the service on a transaction fee basis. There will be no implementation costs and the vendor will only receive payment when travelers use TEServ.

- Volume cost savings – Fees are reduced as transaction volume increases. This service will be available to other Federal agencies as well as DOT. Over the next five years, there is potential for significant savings with extensive use of the service by DOT and other Federal entities.

Web Expense System

In conjunction with Delphi implementation, DOT is planning on implementing a Web Expense system to allow for faster, more efficient tracking of miscellaneous expenses (such as cab fare, parking, tolls, etc.). Typically, users will be able to input expense reports from receipt through final reimbursement. The Web Expense system will utilize the existing Delphi Accounts Payable and General Ledger modules as the stable, static basis for the implementation of the Web Expense System.

Target for Completion: FY 2002

♦ FAA Administrative Services Franchise Fund

The FAA Administrative Services Franchise Fund completed its fifth year of operation at the close of FY 2001. The franchise concept involves the application of market forces and business-like practices in the performance of support services. Organizations that currently excel in providing a product or service can gain further efficiencies through consolidation or partnering with other like activities. Both Government agencies and the taxpayer benefit through direct cost reduction or indirect cost avoidance.

In addition to the financial management functions of accounting, payroll, and travel, the franchise offers a variety of critical support services including multi-media, printing, and management and international training. During FY 2001, the agency moved forward with significant franchise expansion to include materiel management functions associated with the FAA Logistics Center, the aircraft maintenance function in the Office of Aviation System Standards, and a wide variety of additional information technology services.

Franchise organizations have identified a number of benefits associated with the franchise environment. One of the major benefits is the ability to reduce the unit cost of products and services to FAA and other DOT customers by spreading total fixed costs across a greater volume of products and services; e.g., economies of scale. In addition, participation in the franchise environment provides an avenue to generate retained earnings for capital improvements that enhance services and reduce costs. The franchise has also proven effective in promoting a business culture focused on cost and performance measures, benchmarking, use of best practices, process improvements, etc.

A number of financial benefits have been derived through the FY 2001 expansion efforts particularly those associated with the FAA Logistics Center. This includes improved internal controls and interface/linkage between the accounting and inventory support systems and better asset management practices. Establishment of a customer line of credit process versus free issue has provided a preview of improved buyer behavior patterns relating to better consumption choices. This effort has established a major mind-set and culture change for FAA Logistics Center managers and employees to operate more business-like by promoting customer value and satisfaction.

The franchise activities continue active involvement in implementation of the FAA's cost accounting system (CAS) and activation of labor distribution reporting (LDR.) All franchise organizations have developed baseline cost and performance indicators/measures, and these measures are now being refined and expanded to include additional indicators of timeliness, quality, and customer satisfaction. In addition, the accounting organization continues the lead role in implementation of Delphi. Once implemented, this COTS-based, FASAB-compliant system will expand the opportunity for cross servicing within the Department and to other Government agencies.

CORPORATE HUMAN RESOURCES INFORMATION SYSTEM (CHRIS)

The Corporate Human Resources Information System Modernization effort will provide the FAA with a state-of-the-art automated personnel and payroll support system. This new solution will enable the FAA to hire, train, deploy, retain, and compensate its employees in accordance with new compensation plans and applicable governing rules and documents. It will also continue the agency's efforts to capture cost and performance data by incorporating a system that distributes the cost of labor to projects and activities.

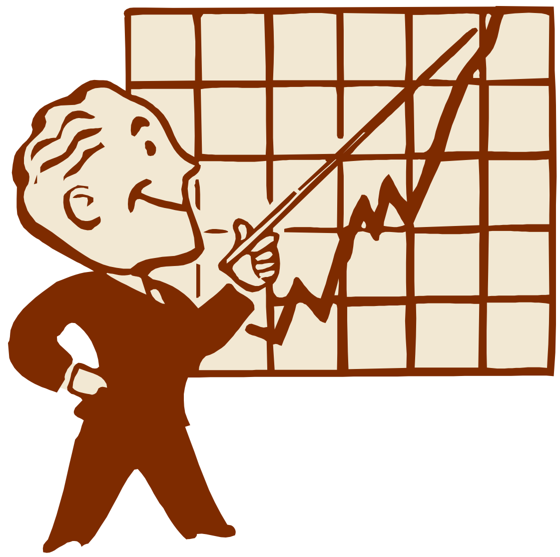
Contingent on the availability of funds, by 2005, the new system will provide core functionality based upon commercial-off-the-shelf (COTS) product offerings from Oracle Corporation for the human resource management system, time and attendance system to include labor distribution reporting (LDR). The initial products for the HR replacement system will include: Oracle Human Resources (Federal version), Oracle Training Administration, and Oracle Time Management/Time Capture. The CHRIS program, in 2003, will conduct an evaluation of existing payroll alternatives. Upon the selection of an appropriate solution and the addition of resources, we will commence the implementation of a replacement for CUPS. The new system will enable an estimated 6,000 users to manage up to 50,000 employee records more efficiently and address the deficiencies of the current CPMIS, IPPS, and CUPS systems. The system will meet FAA requirements and provide a more easily maintainable architecture based on industry-accepted technology.

ENTERPRISE HUMAN RESOURCES INFORMATION SYSTEM (EHRIS)

DOT requires a modern Human Resources Information System to effectively manage human resources, reduce the administrative burden related to data processing, and improve the quality and quantity of readily available management data. The legacy systems are outdated. Also, FAA is pursuing a separate initiative to replace the legacy HR/payroll system. Once the FAA completes their migration to CHRIS, the remaining OAs within DOT cannot sustain operating costs of the legacy system. A recent study indicates their proportionate share will triple when the FAA withdraws funding support of the current system.

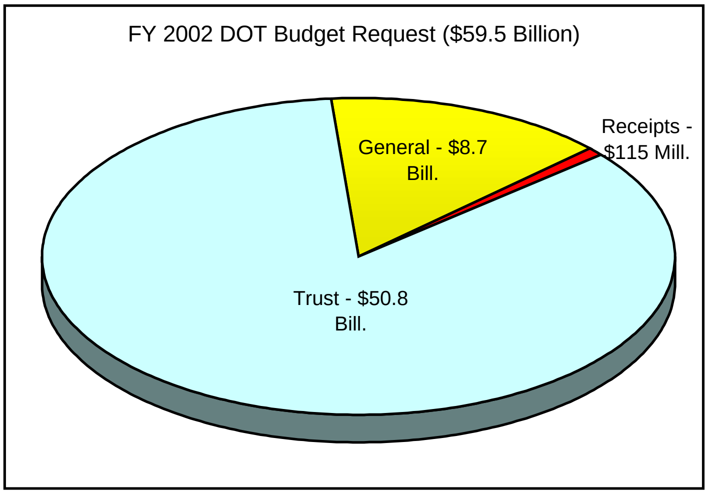
FY 2003 is the second year of a four year phased implementation of EHRIS. Funding required for all phases of this project is nearly $14.2 million. The strategy for the rest of DOT is to utilize a similar COTS based application; leveraging software, project planning, and support contracts administered by the FAA. EHRIS will provide support for time collection, labor cost distribution, payroll processing, management of requests for personnel actions and training, benefits administration, along with management information reporting. The utilization of 21st Century business processes and technology for EHRIS will provide common tools for DOT management to focus on business goals, reduce administrative burden, and empower managers to make decisions for which they are accountable.

Target for Completion: FY 2005



Where the Funds Come From

DOT's budget is supported primarily by three types of revenue sources: (1) trust funds, (2) general revenue funds, and (3) direct receipts. Trust funds derive revenue from special fees, such as motor fuel taxes and airline ticket taxes. More than two-thirds of the Department's funding is derived from trust funds and other fees. The two largest trust funds, the Highway Trust Fund and the Airport and Airways Trust Fund, account for most of DOT's funding and support the Department's programs for maintaining and improving transportation infrastructure. General revenue funds are obtained from the general taxes of the United States. Direct receipts are resources from non-Federal entities that are directly available for DOT Programs.



$$$ for the 21st Century

Transportation Equity Act for the 21st Century (TEA-21)

On June 9, 1998, the President signed into law the Transportation Equity Act for the 21st Century (TEA-21) authorizing highway, highway safety, transit and other surface transportation programs for the next 6 years.

TEA-21 builds on the initiatives established in the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA). This new Act combines the continuation and improvement of current programs with new initiatives to meet the challenges of improving safety as traffic continues to increase at record levels, protecting and enhancing communities and the natural environment while providing transportation, and advancing America's economic growth and competitiveness domestically and internationally through efficient and flexible transportation.

***Significant features of TEA-21 include*:**

a. Assurance of a guaranteed level of Federal funds for surface transportation through FY 2003, keyed to receipts of the Highway Account of the Highway Trust Fund for highway funding and a selected fixed amount for Transit funding.

b. Extension of the Disadvantaged Business Enterprises program.

c. Strengthening of safety programs across the Department of Transportation including new incentive programs, with great potential for savings to life and property.

d. Continuation of the program structure established under the ISTEA legislation and addition of new programs such as Border Infrastructure, Transportation Infrastructure Finance and Innovation, and Access to Jobs which target special areas of national interest and concern.

e. Investment in research and its application, with special emphasis placed on deployment of Intelligent Transportation Systems to help improve operations and management of transportation systems and vehicle safety.

f. Extension of the of highway-user taxes through September 30, 2005 at the same rates in effect prior to TEA-21 enactment. These taxes consist of taxes on highway motor fuel and truck related taxes, including an annual tax on heavy vehicle use, a weight-based tax on heavy truck tires and a retail sales tax on truck and trailer sales. Most of these taxes would have expired after September 30, 1999.

***Significant features of TEA-21 financing include*:**

a. Guaranteed Investment Levels: Highway and transit discretionary programs are guaranteed a floor (a minimum level of spending) by new budget categories which effectively establish a budgetary "firewall" between each of those programs and all other domestic discretionary programs. Previously the highway and transit discretionary programs competed for annual budgetary resources with most other domestic programs.

b. Authorizations and Investment: The minimum level of spending amount for highways is keyed to the projected receipts to the Highway Account of the Highway Trust Fund and will be adjusted as new receipt projections and actual receipts become available. The guaranteed funding for transit programs has a single component—the minimum level of spending amount—which is not keyed to Trust Fund receipts.

c. *Increases and Decreases*: A portion of any increase in receipts to the Highway Account is reserved for the Federal-aid highway and highway safety construction programs allocated by the Secretary of Transportation—programs that are not apportioned by statutory formula. The remainder of the increase is distributed to the States proportional to their shares of apportionments from the Highway Account. Should a decrease be necessary, the reductions would be made in the succeeding fiscal year and applied proportionally to all Federal-aid highway and highway safety construction programs except Emergency Relief.

d. *Obligation Limitations*: Spending limitations are applied to most programs. However, obligation limitations set aside each year for certain programs (e.g. Woodrow Wilson Memorial Bridge) do not expire if not used by the end of the fiscal year, but can be carried over to future years. Limitations for research and technology programs may be carried over for 3 years.

Using Innovative Financing to Supplement Federal Funds

DOT continues to build on opportunities provided by transportation legislation by using innovative financing techniques that move construction projects ahead faster, cut red tape, and supplement Federal funds with private and non-Federal public investment. The Transportation Infrastructure Finance and Innovation Act (TIFIA) of TEA-21 continue this practice. It provides Federal assistance to major transportation projects of critical national importance, or which cross jurisdictions or traditional modal boundaries and sometimes have trouble getting the funding despite their value.

TIFIA's purpose is to fill gaps in market funding or to leverage additional non-Federal resources. It does this through direct Federal loans, loan guarantees, and standby lines of credit. Selection will be based on the extent to which a project generates economic benefits, leverages private capital, and promotes innovative technologies. TIFIA's $530 million of contract authority could support up to $10.6 billion of credit assistance for everything from roads and bridges to freight transfer facilities to MagLev systems. To qualify, a project must cost at least $100 million or 50 percent of a State's annual apportionment of Federal-aid funds, whichever is less, it must be supported in whole or in part from user charges or other non-Federal dedicated funding sources, and it must be included in a State's transportation plan.

♦ *State Infrastructure Banks (SIBs) Program*

Another major initiative that is enhanced in the current legislation is State Infrastructure Banks, or SIBs. SIBs use Federal seed capital to leverage private investment through loans and credit enhancement assistance, and are meant to serve as ongoing, revolving loan funds. As projects are implemented, loans are repaid to the SIB and the proceeds are used for new projects in a continuing cycle. Thirty-nine States were authorized to capitalize SIBs using ISTEA funds. TEA-21 established a new SIB pilot program for 4 more States. These states may continue to capitalize the SIBs using TEA-21 funds. The previous capitalization limit, 10 percent of a State's

Federal funds, was lifted, enabling these States to determine the level of funds they need to make their SIBs work. In addition, the kinds of projects SIBs can support are broader and more intermodal. One of the key aspects of SIBs, both under the ISTEA and TEA-21 pilot programs, is the flexibility the program provides states to direct resources toward locally high priorities, and assist with intermodal projects of regional significance.

Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR-21)

On April 5, 2000, the President signed into law the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR-21), authorizing aviation programs of the FAA and elsewhere in DOT through FY 2003. The Act authorizes record amounts of federal aviation capital and operations funding, enhances safety and consumer protection programs, and provides FAA management reforms that build on personnel and procurement reform legislation previously enacted in recent years.

a. AIR-21 provides substantial growth in funding for FAA—an increase of 39% (or $3.9 billion) by FY 2003 over FY 2000. The growth is in FAA's Airport Grants program (up 79%), FAA Facilities and Equipment (up 44%), FAA Research, Engineering and Development (up 59% by FY 2002, the last year AIR-21 authorizes this account), and FAA Operations (up 23%).

b. Aviation safety will be enhanced by several sections of AIR-21. The Act strengthens sanctions for the use of counterfeit parts in aircraft, and provides whistleblower protections for FAA and aviation industry employees. The Act increases penalties for "air rage" incidents on passenger aircraft, and states that ignorance of the law is no defense in cases of hazmat shipping violations.

c. Environmental concerns are addressed by increased grant funding for noise mitigation measures around airports, and provisions for air tour management plans at national parks and tribal lands.

d. The Act increases from ($3 to $4.50) the maximum Passenger Facility Charge (PFC) that an airport authority can impose on travelers. The PFC program raises about $1.5 billion annually for capital improvements at airports. Under AIR-21, DOT must find that a proposed project at a hub airport will significantly contribute to safety, security, competition among air carriers, or reduced congestion or noise before PFCs are raised above $3. Also, hub airports dominated by one or two air carriers must file competition-enhancing plans with DOT before imposing new PFCs or receiving FAA airport grants.

e. Other AIR-21 provisions also will increase air carrier competition and service. Additional flights are allowed at Reagan National Airport. Authorized funding for the Essential Air Service program is increased by $15 million per year, and a new pilot program is authorized (with $20-27.5 million per year) to assist smaller communities in attracting better service. Smaller airports whose enplanements fall because service is interrupted by such events as strikes or severe weather are permitted to maintain their eligibility for FAA airport grants.

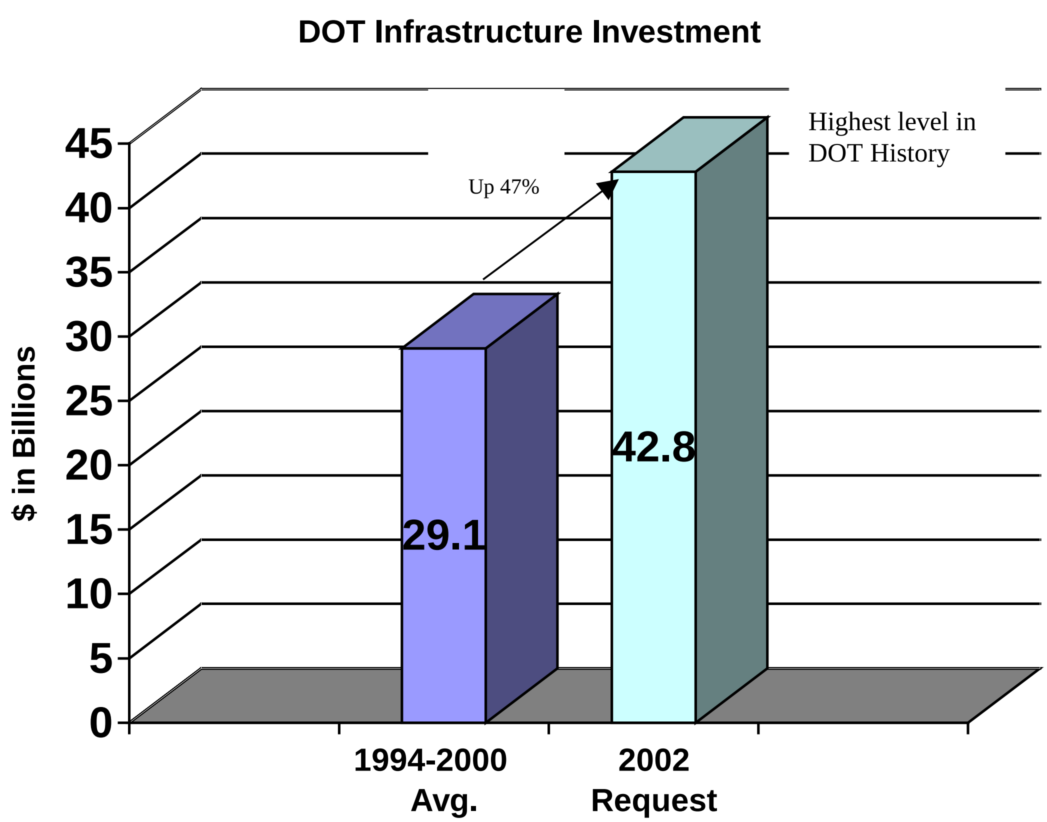
f. Important gains are included in terms of passenger rights and disability issues. Civil penalties are increased for passenger rights violations, and rights for people with disabilities are extended to travel on foreign carriers. Increasing amounts of funds are authorized for consumer protection enforcement in the Office of the Secretary of Transportation.

g. In the area of management reform, AIR-21 creates a five-member Air Traffic Services Subcommittee of FAA's Management Advisory Council, with oversight responsibilities for budget, procurement, personnel assignments and strategic planning. A chief operating officer for air traffic services would be appointed to focus on performance-oriented management practices.

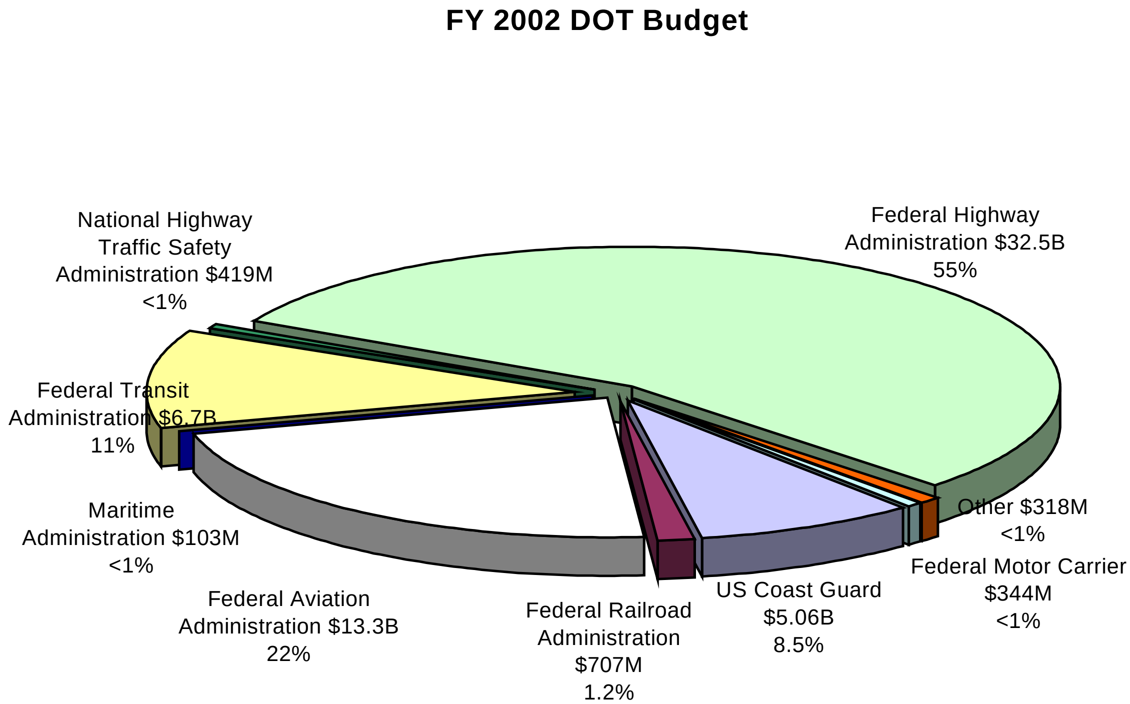
h. In terms of budgetary treatment, AIR-21 stipulates that each fiscal year, an amount equal to that year's excise tax revenues and interest into the Airport and Airway Trust Fund, as estimated in the President's Budget, shall be made available for the four major FAA appropriations accounts. The Act creates House and Senate rules that may be used to challenge any deviation from this formula. Additional amounts may be appropriated from the General Fund for FAA's Operations account if Trust Fund receipts are insufficient to fully fund all four accounts. The Act also establishes House and Senate rules that can be used to challenge any under-funding of the combined authorized levels for Airport Grants and Facilities and Equipment, and stipulates that any underfunding of Facilities and Equipment should be added to the Airport Grants account.

Where the Funds Go

Federal funding for transportation infrastructure—improving the Nation's highways, transit rail and bus systems, intercity passenger rail service, airports and bridges—is the largest component in DOT's budget. Infrastructure funding focuses on ensuring a safe, efficient, accessible and convenient transportation system that meets vital national interests and enhances the quality of life of the American people. The Department's FY 2002 proposed funding for infrastructure investment is $42.8 billion.



Section 4: Maximizing Financial Resources



The following charts show DOT actual and planned fund usage, as published in the DOT FY 2002 Budget in Brief, for major DOT Operating Administrations and their programs:

Federal Highway Administration

	$ in Millions		
	FY 2000 Actual	FY 2001 Enacted	FY 2002 Request
Federal-Aid-Highways Obligation Limitation *	25,873	29,596	31,563
Mandatory Federal–Aid Highways	1,133	1,069	955
Other	2	2,759	0
Limitation on Administrative Expenses (non-add)	(304)	(294)	(318)
TOTAL	27,008	33,452	32,518

***Amount in FY 2000 is net of $1.6 billion flexed from highways to transit.**

$ in millions

Federal Transit Administration

	FY 2000 Actual	FY 2001 Enacted	FY 2002 Request
Formula Grants Program *	4,641	3,287	3,592
Capital Investment Grants	2,492	2,695	2,841
Job Access and Reverse Commute	75	100	125
Research and Planning **	163	110	116
Other	66	70	73
TOTAL	7,437	6,261	6,747

*Includes $1.6 billion in FHWA flex funding.
**Includes $54 million in FHWA flex funding.

National Highway Traffic Safety Administration

	FY 2000 Actual	FY 2001 Enacted	FY 2002 Request
Operations and Research	160	190	196
Highway Traffic Safety Grants	207	213	223
TOTAL	367	403	419

Federal Railroad Administration

	FY 2000 Actual	FY 2001 Enacted	FY 2002 Request
Amtrak Capital*	571	520	521
Safety and Operations *	94	101	111
Research and Development	22	25	28
Next Generation High-Speed Rail	27	25	25
Pennsylvania Station	0	20	20
Other	26	64	2
TOTAL	740	755	707

*In 2001, does not include $1.5 million transferred from other accounts.
NOTE: $55 million in user fees is proposed in 2002 to cover part of the costs of the Safety and Operations and R&D accounts.

$ in Millions

Federal Aviation Administration

	FY 2000 Actual	FY 2001 Enacted	FY 2002 Request
Operations	5,968	6,516	6,886
Facilities and Equipment	2,075	2,651	2,914
Research, Engineering & Development	156	187	188
Airport Grants	1,896	3,195	3,300
TOTAL	10,996	12,549	13,288

U.S. Coast Guard

	FY 2000 Actual	FY 2001 Enacted	FY 2002 Request
Operating Expenses	2,779	3,185	3,383
Acquisition, Construction & Improvement	385	414	659
Research	19	21	22
Retired Pay	730	778	876
Reserve Training	72	80	83
Environmental Compliance & Restoration	17	17	17
Alteration of Bridges	15	15	15
SUBTOTAL	4,017	4,511	5,056
Supplemental Appropriations	700		
TOTAL *	4,717	4,511	5,056

*Does not include mandatory appropriation totaling $64M in 1999 through 2001 for Boat Safety Grants.

Research and Special Programs Administration

	FY 2000 Actual	FY 2001 Enacted	FY 2002 Request
Research & Special Programs *	32	36	42
Emergency Preparedness Grants	25	14	14
Pipeline Safety	37	47	54
TOTAL	93	98	110

*Includes $12 M in proposed new user fees.

$ in Millions

Maritime Administration

	FY 2000 Actual	FY 2001 Enacted	FY 2002 Request
Operations & Training	73	87	89
Maritime Security	96	98	0
Title XI Guaranteed Loans	10	34	4
Ship Disposal	0	0	10
TOTAL	172	179	185

Federal Motor Carrier Safety Administration

	FY 2000 Actual	FY 2001 Enacted	FY 2002 Request
Motor Carrier Safety	76	92	139
National Motor Carrier Safety Program	105	177	205
TOTAL	181	269	344

Office of the Secretary

	FY 2000 Actual	FY 2001 Enacted	FY 2002 Request
Salaries & Expenses	59	63	70
Planning, Research & Development	5	11	5
Civil Rights/Minority Business Resource Center	12	13	12
Essential Air Service*	0	50	40
TOTAL	76	137	127

*$50 million financed from FAA Operations (Trust Fund), and $10 million to be financed from airport grants.

Federal Financial Management Improvement Act Remedial Plan for Resolving Material Financial Audit Deficiencies		
Operating Administration: Office of the Secretary	**Responsible Agency Official:** Mr. A. Thomas Park, Acting Deputy Chief Financial Officer	
Material Weakness – DAFIS is not the primary source for preparing the financial statements and does not provide sufficient time to review and correct financial records prior to preparing financial statements; DAFIS does not comply with the U.S. Government standard general ledger; and DOT has not fully implemented a managerial cost accounting system. Summary of Weakness - The Departmental core accounting system does not contain adequate detail to reconcile the amounts in the general ledger summary to support the information in the Department's consolidated financial statements. It does not meet the U.S. Government standard general ledger requirements, and does not have in place a managerial cost accounting capability. Summary of Remediation Plan - DOT is in the process of implementing a new core financial system, Delphi, based on Oracle Federal Financials. Oracle Financials has been certified by JFMIP as meeting Federal requirements. This system will provide DOT with an accounting system that is in substantial compliance with Federal financial system requirements. Delphi will contain the Standard General Ledger and will produce Financial Statements and other Treasury reports as a by-product of the core system. Delphi is in production in 7 DOT agencies. The current plan provides that the remaining agencies be implemented during 2002. The implementation team is led by Federal employees from the FAA's Aeronautical Center in Oklahoma City, and is comprised of employees from the individual agencies and consultant support from Oracle. Several individual agencies have engaged additional consultant services to support their unique requirements. The anticipated cost for FY 2002 is approximately $16 million. Costs for the entire effort, which began in FY 1998, are estimated at $80 million. Costs include Federal employee costs and consultant services, and may include costs associated with cleaning up data which was required for obtaining a clean opinion on Financial Statements and for conversion to the new system.		
Specific Corrective Actions	**Target Date**	**Status**
Ensure that Operating Administrations perform reconcilations and make adjustments which are recorded into the core accounting system in a timely manner.	9/30/98	Completed
Ensure that the Operating Administrations record Appropriations Used in the core accounting system.	9/30/98	Completed
Develop, test, and implement a new financial statement utility to assist in the preparation of financial statements.	09/30/01	On Track

Continued – Implement a new, improved core accounting system. The replacement system will enhance the Department's capability to produce timely, accurate, and complete financial reports, and provide all departmental elements the capability for full managerial cost accounting. Seven DOT agencies are currently in production and the remaining should be fully implemented during 2002.	12/31/02	On Track

Appendix A

Appendix B

<table>
<tr><td colspan="3">Federal Financial Management Improvement Act
Remedial Plan for Resolving Material Financial Audit Deficiencies</td></tr>
<tr><td>Operating Administration:

Federal Aviation Administration</td><td colspan="2">Responsible Agency Official:
Primary: Assistant Administrator for Financial Services, ABA-1
Secondary: ARC-1/Regional Administrators, Assistant Administrator for, Acquisition, ARA-1, Assistant Administrator for Airways Facilities Services, AAF-1</td></tr>
<tr><td colspan="3">Material Weakness – Deficient Property Systems – not integrated with Financial System

<u>Summary of Weakness</u> – FAA utilized legacy property systems that were not designed for financial purposes and was required to dedicate extensive resources to generate and validate depreciation calculations outside of the Property Systems. The systems are not integrated with the financial system (DAFIS) so changes/updates to the property records do not automatically update DAFIS and vice-versa.

<u>Summary Remediation Plan</u> – The OIG recommended that FAA implement an off the shelf property system that will be integrated with DELPHI, the new DOT accounting system.</td></tr>
<tr><th>Specific Corrective Actions</th><th>Target Date</th><th>Status</th></tr>
<tr><td>Develop and Interim Fixed Asset System (IFAS).</td><td>5/31/01</td><td>Complete</td></tr>
<tr><td>Convert Personal Property Data to IFAS</td><td>10/15/01</td><td>Loaded all FY 2000 Records Preparing to Load FY 2001 Records</td></tr>
<tr><td>Convert Real Property Data to IFAS</td><td>10/15/01</td><td>Loaded all FY 2000 Records and FY 2001 Records thru May.</td></tr>
<tr><td>Generate FY 2001 Depreciation for Financial Statements</td><td>11/15/01</td><td>Ongoing</td></tr>
<tr><td>Convert data from IFAS (ORACLE Based) to DELPHI Fixed Asset Module – Long Term Solution</td><td>TBD</td><td>Will coincide with the FAA Delphi implementation date.</td></tr>
</table>